

## Message from the Chief Financial Officer

NOVEMBER 14, 2005



**O**ur fiscal year 2005 Performance and Accountability Report (PAR) summarizes the most important financial and program performance information for the Department of Homeland Security (DHS). The report is also our principal publication and report to the President, the Congress, and the American people on our accountability and control of funds entrusted to us and our efforts to improve program performance.

### LEADERSHIP AND VISION

**D**HS leadership remains deeply committed to responsible financial management and places it as one of their top priorities. As the Chief Financial Officer (CFO) of DHS, I am especially aware of the importance of consistent, transparent, and effective Department-wide financial management practices.

The vision for successful financial management at DHS is one where there exists a framework of people, processes, and systems in which DHS stakeholders, such as our leaders and managers of all agencies, have accurate, timely and useful information to make effective decisions in support of the mission. This vision means that we can: support an unqualified opinion on our financial statements; make reasonable assurances over our internal controls on financial reporting; relate our spending to our performance; have integrated financial management systems; and have dedicated, highly talented financial managers who pull all of this together.

In August 2004, former Secretary Ridge initiated the Department's functional integration effort to bring all experts under one integrated method of operation. As a result, a series of Management Directives (MD) were approved in October 2004, including the Financial Management Line of Business Functional Integration Management Directive, which established the DHS authorities and responsibilities of my office and all CFO's within DHS. The directive is the principal document for leading, governing, integrating, and managing financial management functions throughout DHS.

Realizing financial management excellence requires every executive, manager, and employee in the Department to help create an environment that rewards collaboration, promotes best practices, and shares accountability for the performance of the management support systems that enable the Department to fulfill its mission. This concept of functional integration mandates that both component heads and key functional experts are responsible for our strategic goal of organizational excellence in financial management. As Chief Financial Officer, I am accountable for designing the system to optimize the financial management function, setting the standards for functional performance, creating department-wide policies and processes, providing the automated solutions to yield greater efficiencies, and nurturing the development and success of centers of excellence. Component heads will likewise be

accountable to support these progressive business functions as a key part of their commitment to mission accomplishment.

## FINANCIAL REPORTING IMPROVEMENTS

**T**his year, I initiated the Chief Financial Officer's Three Year Vision for DHS Financial Reporting. The theme for fiscal year 2005 is "*Full Visibility and Corrective Actions*." The goals for this year were: 1) timely fiscal year 2005 PAR submission, 2) prepare Secretary's Assertion on Internal Controls over Financial Reporting, 3) reduction of material weaknesses, and 4) qualified balance sheet opinion.

The Department was successful in meeting goals 1 and 2, and it is noteworthy that a successful outcome was achieved in a separate audit at the U.S. Customs and Border Protection. However, owing to material weaknesses in several components, the auditors were unable to complete testing necessary to support an overall opinion on the Department's fiscal year 2005 consolidated balance sheet. In addition, although the number of material weaknesses was not reduced in fiscal year 2005, many corrective actions were successfully carried out in the components and a formal monitoring program was implemented to oversee and measure component progress in addressing their corrective action plans.

In fiscal year 2005, we have made great improvements in the area of financial management, and I fully anticipate in fiscal year 2006 that the corrective actions to address weaknesses in internal control will be substantially implemented. Significant accomplishments to date include:

- We instituted strong quality control processes in the Office of the CFO (OCFO) and issued updated PAR guidance to DHS bureaus early on in the fiscal year;
- We hired and contracted additional accounting personnel that possess complementary technical skills including proficiency with the standard general ledger, financial reporting, system maintenance, internal controls, and financial management policy. In addition, our fiscal year 2006 budget request includes five additional positions;
- We initiated a comprehensive internal control assessment of the consolidated financial reporting process, using the criteria defined by the U.S. Government Accountability Office (GAO) and the recent revisions to OMB Circular A-123 and the DHS Financial Accountability Act (P.L. 108-330);
- We have open communication and regular reporting with the Secretary and Deputy Secretary, and other key stakeholders such as the Office of the Inspector General (OIG) and the independent public accountants;
- We are actively engaged with DHS components through regular Financial Management Working Groups and Internal Control Committee (ICC) meetings;
- We have started the process to have corrective action plans in place in all organizations with material weaknesses and spell out plans for how and when the weaknesses will be remediated;
- The Secretary has clearly communicated to the Department our goals for financial improvement; and

- We have hired a Deputy CFO to assist in driving internal controls and best practices into Department and component financial management operations. Our Deputy CFO led the Secretary's Second Stage Review agenda item for improving financial management.

We understand the challenges that we must address and are confident that the three-year strategy set forth for receiving an unqualified opinion on our consolidated financial statements and for eliminating all material weaknesses will be a success.

## INTERNAL CONTROLS

One of the unique and most challenging financial management requirements we face at DHS is the audit of internal control over financial reporting. With respect to internal controls, Section 4 of the DHS Financial Accountability Act requires DHS to include in its Performance and Accountability Report for fiscal year 2005, an assertion of internal controls that apply to financial reporting. In addition, Section 4 requires that DHS include an audit opinion of its internal control over financial reporting in DHS' PAR beginning with fiscal year 2006.

The task of examining and documenting internal controls over financial reporting is time consuming and challenging, as many in the private sector would attest, but we agree that it is imperative that DHS move as swiftly as possible to improve financial management and correct identified material weaknesses. This will build a sustainable and reliable financial management framework that will withstand audit scrutiny and assure all that resources are used wisely. DHS will lead the Federal government in this regard.

DHS has initiated extraordinary steps to organize the Department to prepare for an audit of our internal controls over financial reporting. I am very pleased with our trailblazing implementation of an internal controls process. I believe DHS will be a model in the government as others go down this path. Significant accomplishments to date include:

- In December 2004, I directed the DHS Chief Financial Officer Council to nominate senior executives and senior staff to establish an ICC responsible for implementing the internal control provisions of P.L. 108-330.
- Initial ICC activities included developing a charter to set forth the applicable oversight, responsibilities, structure, and management of the group.
- In developing our strategy, we proactively reached out to the: Office of Management and Budget (OMB), CFO Council Financial Management Policies and Practices Subcommittee, DHS OIG, and an independent public accounting firm. In addition, numerous CFO Act agencies have contacted us to share experiences in developing our internal control program.
- In May 2005, with the assistance of a public accounting firm, we developed an implementation guide for complying with the internal control provisions of P.L. 108-330. Our guide provides the strategy and framework for implementing the DHS Financial Accountability Act.
- Over the summer, we executed a detailed and technical seven step plan to support the Secretary's fiscal year 2005 assertion statement and prepare for the fiscal year 2006 audit of internal control over financial reporting. These seven steps included:

1. Identifying the maturity level of internal control over financial reporting.
  2. Assessing entity-level controls using the Government Accountability Office (GAO) Internal Control Management and Evaluation Tool. The GAO Tool was the assessment methodology to support the Secretary's assertion in fiscal year 2005.
  3. Identifying financial reports to be included in the assessment.
  4. Identifying significant line items and related accounts, disclosures, and processes/cycles.
  5. Determining multiple-location coverage.
  6. Summarizing the use of services organizations.
  7. Other considerations including the year end financial reporting process, laws and regulations, system considerations, etc.
- As discussed earlier, we've initiated a comprehensive internal control assessment of the consolidated financial reporting process within the OCFO. In addition, the U.S. Coast Guard, one of our largest components, has initiated process level documentation pilots.
  - Throughout the year, we have also made progress in developing a corrective action planning process. For example in fiscal year 2004, our independent auditors reported we did not prepare corrective actions for all material weaknesses and reportable conditions. This year, we have developed corrective action plans for all material weaknesses and reportable conditions and we are also developing a Management Directive and Process Guide to ensure these corrective action plans demonstrate results.
  - With regard to provisions of the DHS Financial Accountability Act related to DHS-wide management controls, we have established an integrated framework to coordinate our overall internal control assessment with all other internal control-related activities. This framework includes various statutory requirements and overall management or functional areas that cut across many if not all of the DHS components and mission areas.

**electronically Managing enterprise resources for government efficiency and effectiveness (eMerge<sup>2</sup>)**

The eMerge<sup>2</sup> program is the Department's initiative to further streamline, consolidate, and improve financial management throughout DHS. eMerge<sup>2</sup> will provide a long-term solution to many of the Department's deficiencies and will be critical to improving financial management at DHS components. The eMerge<sup>2</sup> program's end-state vision is to improve systems and processes in DHS; reduce material weaknesses, systems and providers; and increase efficiency and effectiveness.

Since last year, DHS has completed an exhaustive, department-wide requirements definition and design phase, and is finishing our rollout strategy going forward. This spring, in conjunction with Secretary Chertoff's Second Stage Review, we began a reevaluation of our original planned approach to delivering improved financial systems to DHS organizations. The program review objectives are to see if there are additional opportunities to lower the cost and risks and to accelerate the implementation of a department-wide financial management system. Concurrently with the implementation of the long-term solution, the eMerge<sup>2</sup> Program Office is developing DHS-wide financial performance metrics which will be available to the DHS CFO community via an internal website. This dashboard will be vital to achieving DHS' vision of providing meaningful and useful information to managers. It will also be vital to tracking our financial performance as a Department.

We have made great progress under challenging circumstances. Now, with a strong, growing and motivated staff, and the continued support of the Department's leadership, OMB and Congress, we will realize even greater progress in the coming year.

Sincerely,

A handwritten signature in blue ink, appearing to read "A. Maner".

Andrew Maner  
Chief Financial Officer